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Investment in Locally Controlled Forestry in the South East European Sub-Region

TFD Background Paper

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1: INTRODUCTION

This paper has come about from two lines linked to two organizations: TFD and CEPF; and has been amended by the national input from Macedonia and Serbia.

Since 2002, TFD have developed and convened over 25 policy dialogues on different key issues of forest conservation and sustainable forestry, such as Forest Certification, Illegal Logging, Forest Governance, Biodiversity Conservation, Intensively Managed Planted Forests and recently on Commercial Forestry and Poverty Reduction and Forests and Climate Change.

According to TFD, the dialogues on Commercial Forestry and Poverty Reduction and Intensively Managed Planted Forests have highlighted the issues facing **locally controlled forestry**. In conclusion, a so-called scoping dialogue in Brussels (2009) and two field dialogues in Panama on indigenous landowners' problems (2009) and in Kathmandu/Nepal on community forestry issues (2009) have been held so far.

The third field dialogue takes place in the FYR of Macedonia and Albania, providing an opportunity to discuss European cases regarding these questions of the South East Europe (SEE) sub-region. The SEE sub-region is one of those in Europe with many political and economical changes in the last period, opening new business and investment possibilities generally by creating market economies, thus obviously affecting the private forestry sector. Based on this, it can be stated that in Europe an international policy dialogue on small scale forestry and its investment options is very well placed in SEE when practical impact and actuality is searched for, as this is the sub-region in Europe highly in need of business links and investments.

In this context the Confederation of European Forest Owners have been approached to coordinate the sub-regional tasks and provide a background study to TFD's "SEE Dialogue." To underpin the general trends and observations, two national case studies have been prepared on the issue: one from Macedonia and one from Serbia.

The Confederation of European Forest Owners has been directing targeted activities towards Central and Eastern European countries since 2003/2004. This includes exchange between forest owners and their organisations and policy level work, together with national forestry administrations, FAO UN, IUCN or the European Commission. As a result, several events have been organised along this cooperation and project ideas have been developed and some of them have also been implemented.

In 2008-2009 CEPF was involved in the SEE sub-region at the project level and coordinated a World Bank PROFOR Programme financed project addressing the South East European (SEE) sub-region's forest policy development concerning private forests. The project tackled this issue in three countries within the policy frame of the respective national forest programme or strategy processes (Albania, Macedonia, and Serbia). The work covered analytical phases with the development of the so-called national status quo analyses of non-state forestry and practical phases with meetings organised at the local, national and international scales. International organisations such as SNV and FAO cooperated in the implementation of these activities. The CEPF contribution to TFD series of locally controlled forestry dialogue grows out from these activities as a sort of follow up, addressing the investment and business links of non-state forestry.

The scoping dialogue in Brussels identified two key terms to be used also here—locally controlled forestry and investment—as follows:

“....we are considering **locally controlled forestry** as the range of actions to manage or grow forest resources and run small enterprises based on forest goods or services, carried out by smallholders, community groups, forest-dependent people and other local groupings, and over which they have substantial decision-making power.”

“...**investment** is being understood here in the wide sense of the types of actions that can enhance locally controlled forestry assets, chiefly the supply of finance and the development of human resources and practical management systems.”

The policy importance of the issue is highlighted by stating that: “...Under the right conditions, locally controlled forestry can be a strong contributor to local livelihoods and sustainable development...” mainly referred to in Europe as in rural areas or as part of rural development policy. “...Often it requires improved investment to reach this potential, yet this investment can be lacking or misplaced... Considerable work has been done on these issues, but key dilemmas and constraints still remain unresolved...”

Here are some characteristics and statements recalled, setting the scene for this paper at the international level (TFD 2009):

- According to the World Bank, about 1.6 billion people live in predominantly forest ecosystems or in their vicinity. Forests are important resources for the rural poor, with over 800 million people living in forests and woodlands in the tropic.¹ The number of small scale family forest owners can be estimated at about 30 million in developed countries². Reliable estimates on developing countries are lacking but their number is measured in tens of millions as well. In addition to livelihood contribution through subsistence safety net, the forests can also provide a source of cash income, a capital asset, a source of employment, and an alternative health care system based on forest plants.
- Indigenous groups and communities own or manage about 20% of the forests in developing countries³. According to the Global Alliance of Community Forestry, more than 9 million people depend directly on products and income from community forests but this is likely to be a gross underestimate as in many countries community forests are not sufficiently organized to provide reliable estimates on their members. The community forest sector is expanding fast as the governments in many developing countries (Cameroon, China, Ghana, India, Thailand, Peru, Bolivia and Colombia among others) are transferring ownership, management or use rights to local communities and their members under various arrangements.

Some of the key problems identified to these developments (TFD 2009)

- Even where legal reforms of tenure arrangements have been carried out, the regulatory frameworks reflect outmoded and traditional legal and tenure arrangements and can make it impossible for small-scale actors and communities to benefit from the policy and legal reforms. Regulations often act as barriers for legal access to forests and markets, unduly raise the transaction costs of community enterprises and promote unfair sharing of benefits and corruption.
- In general, indigenous people, forest communities and smallholders are poorly organized which means that, as market actors, they cannot tap the sales price potential of their products. Weak managerial and technical capacity is a key constraint for their development and makes communities vulnerable to external pressures for illicit activities.
- Lack of access to capital is a common fundamental constraint not least because community or indigenous lands can rarely be used as collateral and the banking sector may have no or very limited understanding of forest investments financing.

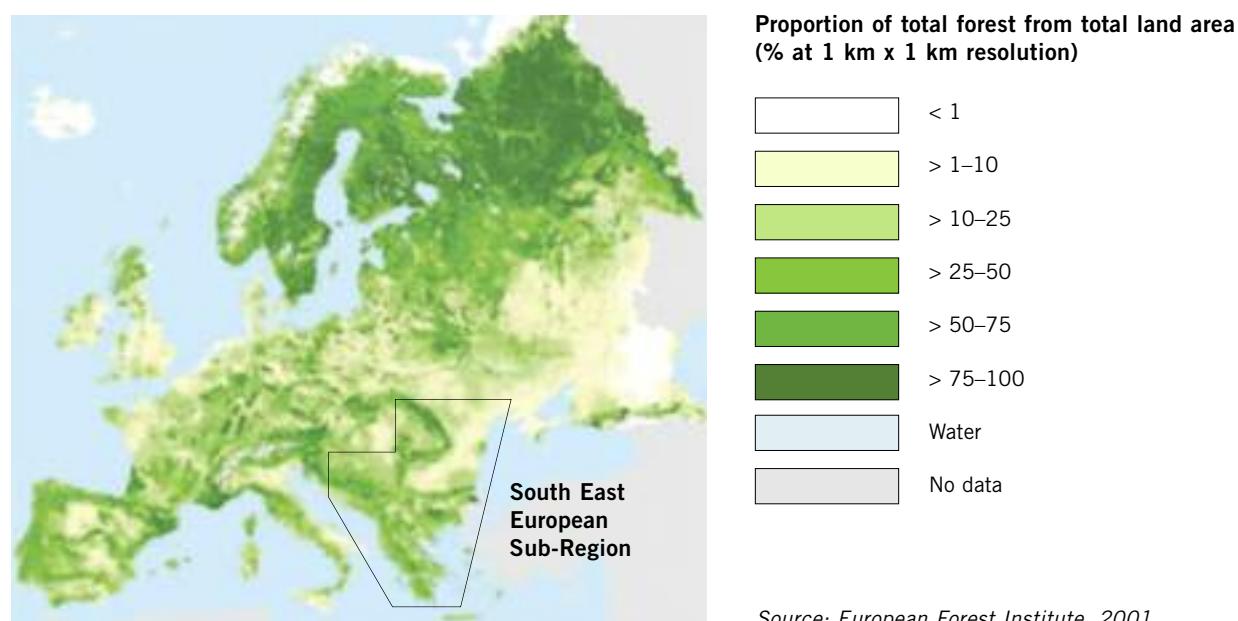
- Communities and smallholders are also particularly disadvantaged in meeting market requirements, which are becoming increasingly demanding and complex. Requirements such as verification of legal compliance, attestation of sustainable practices and traceability of forest products can prove to be particularly challenging.
- Concerns have been raised about potential threats to the legal or customary rights and the economic status of forest dependent people, who would incur significant costs and economic losses if access to forest resources becomes constrained. These threats could include, for example, the inappropriate targeting of financial support resulting in the limitation of peoples' access to their forest resources or inadequate investment in capacity strengthening for local structures.

2: SOUTH EAST EUROPE SITUATION ON FORESTS AND FORESTRY—OVERALL DATA AND SUB-REGIONAL TRENDS (BASED ON MCPFE 2007)

The SEE sub-region⁴ hosts around 32.8 million ha of forests and nearly 15.6 million ha of other wooded land and represents some 16% of the forests and 42% of the other wooded land area in Europe without the Russian Federation (see Graph 1). This means that, all in all, about one third of its land area is covered by trees and woods. There is an overall tendency of a slight increasing of the forests and decreasing of the other wooded land, corresponding to a modest growth of the growing stock. However, Albania and Serbia reported losses between 2000 and 2005 regarding both issues. Whereas the area of broadleaved forests has been increasing since 2000, interestingly, the area of mixed forests has continuously decreased in SEE.

The forest area available for wood supply in 2005 was reported to be 82%, with a slight increase between 1990 and 2005. This share is equal to one of the Nordic/Baltic countries of Europe and is some 10% less than it is in Central and North West Europe. The net annual increment is steadily increasing (91 million m³/yr) whereas annual fellings are rather stable amounting to around 40-41 million m³ yearly (1990-2005). In South East Europe the countries report to the NAI a yearly felling rate lower than 50%, apart from Albania where the utilization rate exceeded 300% in 2000 and 500% in 2005 thus being a harsh violation of sustainable harvesting rates.

GRAPH 1: FOREST MAP OF EUROPE AND THE SOUTH EAST EUROPEAN FOREST COVER



Concerning silvicultural issues, the sub-region is well known for the wide use of natural regeneration in general and especially for coppicing practices (Albania, Bulgaria, Macedonia, Serbia). It is however also striking that in Europe only Serbia and Albania have reported over 30 endangered forest tree species as of 2005 whereas the wide majority counts 0-4 species being threatened. In Albania 1 forest tree species has been reported as extinct. On the other hand, large areas are under protection for biodiversity and landscape. For example, in Albania and Serbia this figure is well above 20%, whereas in Croatia, Greece, Bulgaria and Romania it is lower than 10%.

The sub-region is well known for its strong rural traditions indicating that non wood forest products (NWFP) are of outstanding economic importance and personal use. For instance, among the MCPFE reporting countries Bulgaria is the top mushroom producer in terms of quantity, whereas Serbia is the one with the highest value per tonne; Albania is well-known for its medical plants and Macedonia for honey production.

When it comes to some general trends on the forestry sector, it can be stated that in SEE it plays, according to the GDP values, a minor role as it participates with only 1%, but yet slightly higher than it is in North West or South East or East Europe with Russia. MCPFE (2007) states that, "...in terms of value added within the sector, forestry and logging activities are more important in Nordic/Baltic countries and in East and South East Europe, while in other regions, value added is more concentrated in forest industries." Further data specifies that the gross value added of the pulp and paper industry in SEE is under the one of the forestry and logging and that some 45% will be produced by the wood processing industries. This states that those parts of the forestry sector which demand more technology and investment, such as pulp and paper industry or bio-energy are rather underdeveloped here. However, since 2000 the sub-region's contribution to Europe's forest sector value added is increasing (MCPFE 2007).

Concerning the workforce in the sector, SEE is the sub-region with the most employment in Europe in silviculture and logging activities with some 45% of the European total, being rather stable in trend since 2000. In the total forestry sector of Europe including industries SEE accounts for about 800,000 jobs out of 3.5 million (23% !!). However, only few European countries report an increased employment in the sector for the period of 2000-2005, among which are Turkey and FYR of Macedonia from SEE. The general trend in Europe is clearly a decreased employment at the rate of between -2.0% and -6.9% for the years 1990-2000 and some -0.3% to -3.6% in the years 2000-2005. Further, it should be remarked that "Turkey and South East Europe have the highest forestry employment per area of forest." (MCPFE 2007). This raises questions about work force employment efficiency and technology development in the sector, perhaps.

The wood trade regarding exports and also imports has grown since 1992 substantially, now having 4-5 times higher value than then. It accounts for less than 10% of the European volumes. However, the sub-region is a net exporter of wood products.

In the sub-region Albania, Serbia, Romania and Bulgaria have experienced serious changes of the ownership conditions on forests since the 1990s, showing an increase of privately and community owned forests.

3: PRIVATE AND COMMUNITY FORESTRY IN THE WESTERN BALKANS

What the Western Balkan countries of Albania, Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, and Serbia have in common is that their forests are significant resources for the development of the rural economy and the private ownership (PRIFORT 2009). The share of private forests varies greatly between the countries accounting for 2 percent in Albania up to over 50% in Serbia and in the rest of the countries it is not more than 20%. However, as the restitution and privatization process is still ongoing, these figures might change very soon.

The number of private forest owners is unsure; however it most likely reaches 2 million, indicating a very low average property size of about 1.0 ha per person (see Table 1). Therefore in the overall picture the small-scale forest estate dominates in the

Western Balkans. However, ca. 25% of the owners have forests smaller than 1.0 ha and there is also a remarkable share of owners who hold more than 3.0 ha, particularly in Serbia—38% of the private forest estates (PRIFORT 2009). Communal forests exist only in Albania accounting for 356,000 ha or ca. 38% of the stocked forests there.

TABLE 1: PRIVATE FOREST OWNERSHIP IN WESTERN BALKAN COUNTRIES, 2004-2008

Country	Forest area (10 ³ ha)	Private forests (10 ³ ha)	Private forests' share (10 ³ ha)	Number of PFOs (10 ³)	Average size of private forest property (ha)
Albania ⁵	942	19	2	15	1.10
Bosnia and Herzegovina	2,710	523	19	500	1.00
Croatia	2,487	473	19	600	0.77
Macedonia	997	96	10	240	0.40
Montenegro	770	161	21		
Serbia	2,200	1,148	52	500–800	1.0–2.2

Source: PRIFORT, 2009

This paper pictures the development of the private/community forestry in SEE and highlights related investment issues. Further details will be given to three cases of development of the non-state forestry in SEE: Macedonia, Serbia and Albania.

3.1: DEVELOPMENT OF PRIVATE FORESTRY IN MACEDONIA (BASED ON TRENDAFILOV ET AL. 2008)

Short history of private forests

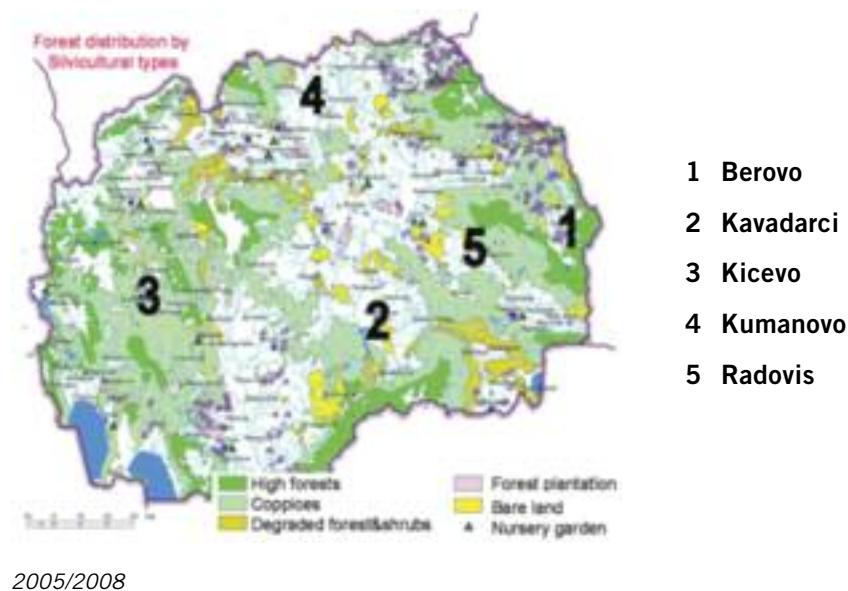
The archives contain documents about the forests on the territory of the Republic of Macedonia from the time of the Ottoman Empire and very few for modern times before WWII.

After WWII a large part of private land, including forests, was nationalized and the socialist cooperatives were established. In the 1950s private forests were nationalized and the owners lost their management rights. In many parts of Macedonia however, nationalization of private land was not documented properly. Therefore the recent restitution process has had difficulties to restore the original situation. The families that used to own forests had to change their life and did not use any more forests and the principles of traditional forestry. The owners of small parcels lost their interest in managing them.

In 1991 Macedonia became independent and ownership right on land became again possible. Soon the restitution process began and the private forest areas increased, guaranteed by the provisions of Constitution and Restitution Law. However, the results from the restitution did not give the expected effects. In 2008 the process stopped and since then has not resumed. There are expectations for follow up but there is only 2–3% further possible increase of the private forests. From around 1.4 million ha of forest land the stocked forests account for some 950,000 ha out of which ca. 65% are coppice forests and bushes (2006). Their standing timber volume is some 51.5 million m³, or 39.6% of the total.

The average timber volume of 96.4 m³/ha is at the low end of the European comparisons and shows a general low quality of the forests in Macedonia. "...This derives from historical, social and economic causes. Forests in Macedonia in general and coppice forests in particular were exposed to permanent degradation and devastation." (Trendafilov et al. 2008).

GRAPH 2: FOREST DISTRIBUTION BY FOREST TYPES IN FYR OF MACEDONIA AND BRANCH-OFFICES OF THE NATIONAL ASSOCIATION OF PRIVATE FOREST OWNERS



In terms of ownership, private forests cover 125,872 ha. State owned forests cover 861,502 ha (Source: State Statistical Office data, 1996). But according to the management plans there are 903,587 ha owned by the state (90%) and some 97,423 ha by privates (10%).⁶

Private forests are on average small areas with a low production of timber. There are about 220,000 private forest parcels in the country owned by 65,000 families, which means about 200,000 forest owners. The average property size is about 0.5 ha.

State and private forests are equally obliged to have the management plans. The plans are made exclusively by the Department for Forest Management Planning operating within the Public Forest Enterprise "Makedonski Sumi."

The private forests are divided into 220,000 parcels, on average 0.4 ha per owner. The Forest Law of 1997 gave the opportunity for private forest owners of forests over 100 ha to have their own management plans developed by qualified staff. This option was however not used and remained therefore only theoretical.

All services for private forest owners, like marking trees for felling or issuing of transport licenses have been done since 1998 by the PE "Makedonski Sumi." Until 1998 the services were done by the Ministry of Agriculture, Forestry and Water Management. According to Trendafilov (2008) this functioned better than the system does today, due to the conflict of interests of the PE as management and as a service provider organization at the same.

In the forest policy of the country the most significant achievement has been the Strategy for Sustainable Development of the Forestry in Macedonia. It was developed in 2005 and passed by the parliament in 2006. It sets the stage for all major decisions concerning forestry for the next 20 years. Its goals and measures in the Action Plan for Implementation relate to all forests in the country. The aim of the Government is to increase the contribution of forestry to the national and rural economy through sustainable forest management. Forestry shall provide products and services for improving the quality of life of all citizens. In the Strategy, the understanding of forests mainly relates to its use as a resource producing material goods, like timber and non-wood forest products (herbs, mushrooms, berries, game etc.).

Few issues of this document are related especially to the private forests. However, private forest owners considered it as good basis for the development of the strategy of the Association and private forestry in general (NAPFO 2006).

In general, the implementation of the Action Plan has been so far slow with only few results (2008). Information seminars and consultations on forest management for forest owners in general and on afforestation in particular took place. Information provision for forest owners and related SMEs was also realised. The Association addressed the issue of the draft Forest Law by making detailed proposals after consulting its members and the administration. Most activities defined in the Action Plan are still ongoing.

3.2: DEVELOPMENT OF PRIVATE FORESTRY IN SERBIA (BASED ON NONIC AND MILIJIC, 2008)

The National Forest Inventory specifies 2.2 million ha of forests in Serbia (2008) with 29.1% share on the state territory.

Private forests dominate the ownership structure covering approximately 52.2% of the total forest area, followed by state forests, covering 39.8% of the total forest area. In 2008, the ownership category of about 8% of the forests was still not determined. It is estimated that the share of private forests in the total forest area will increase to 56% when the ownership type of forests specified as “others” is determined.

The total timber volume in private forests exceeds 162 million m³, representing 45% of the total timber volume in Serbia. The average timber volume is 138.5 m³/ha, and the total annual increment is at the level of state forests, 4.2 million m³.

Development of forest property

In the 19th century forests were mainly in public ownership and seen as a source of societal welfare. Different forms of forest ownership—private, communal, rural were then formed by the end of 19th century and defined in the first Serbian Forest Law from 1891. After WWII policy favoured the public forestry sector by establishing the so-called socially-owned property by nationalization of state, communal, private forests, monastery and other church forests. However, de jure private forest ownership existed in former Yugoslavia throughout the whole period after WWII, unlike in most of “the Eastern European Block” socialist countries, although the management options that the owners of private forests had were very limited. Legislation and forest management goals defined by forest management planning were not significantly different in private and state forests. Basic shortcomings of these regulations were the lack of clearly defined policy and strategy, and policies of state administration on private forests (basically no incentives, extension and other support for associating—Nonic, Milijic 2008).⁷

In 2008 the structure of private forests in Serbia showed a large number of forest owners, with corresponding small average forest properties, in small parcels. More than 72% of the owners have properties smaller than 1 ha, 26% own property between 1 and 10 ha, and only 2% of forest owners have forest property larger than 10 ha (NFI 2008). Therefore Milijic (2008) states that “...the private forest sector in Serbia is characterized by high fragmentation of properties, a large number of parcels and owners and insufficient forest management.”

Although private forest owners manage their forests, the public forest enterprises are entrusted with performing some basic technical tasks in private forest management.⁸ Pursuant to the Forest Law from 1991, private forest owners have the following obligations (Nonic, Milijic 2008):

- ➔ To work according to a forest management plan;
- ➔ Tree marking before felling performed by private forest service;
- ➔ Obligatory compensation for logging which the owner pays to a private forest service of PE⁹;
- ➔ Obligatory timber and fuel wood stamping and license for transport done by the Public Forest Enterprise.

At present, two basic forms of forest owners' organizations exist in Serbia—the community forest model, which aims at joint forests management and the private forest owners' associations aiming at representation of members' interests while performing most management tasks individually in the owned forest.

There is only one so-called forest community in Serbia, which has continuously been developing since 1903—*Sumska zajednica Beocin*. It has gathered about 80 owners since then and it is unique in its existence and organisation. In the period of 2006-2009, several private forest owners' associations (PFOA) were established in the country (around 14 by 2009). The associations are NGOs and their statutes and overall goals are very similar (Milijic, 2007). The association as a body coordinates joint works like forest infrastructure enhancement or joint product marketing or training activities. They do cooperate at the national level and established the Federation of Forest Owner Associations in Serbia in 2009. This structure of the national organization of forest owners is the same as the one in Croatia.

Policy development

In July 2006 the *Forest Development Strategy of the Republic of Serbia* was adopted.

The Strategy defines the role of the state in the forestry sector's development and also the role of the forestry sector in the national development addressing also environmental and conservation issues. In addition, the Strategy defines the links between the state and private forests.

One of the key elements of the Strategy is the institutional reform of the forestry sector. This includes the followings issues:

- Redefinition of roles and responsibilities of institutions in forestry, on central, regional and local levels, and their links to each other;
- Increased role of the private sector in providing goods and services;
- Development and strengthening the capacities of the NGOs at local level;
- Definition of the role of forestry in rural development;
- Transparency.

The Strategy also linked up to the legal tasks to be completed and defined the elaboration of a new forest law and also defines the National Forest Program (NFP) as the action plan for its implementation.

Also, the Strategy emphasizes the need for the development of small and medium-sized enterprises in forestry. In Serbia this is especially important in rural areas and concerns fuel wood and timber production for the own needs and less for marketing purposes. The basic goal of establishment and development of small and medium-sized enterprises in forestry is to facilitate an increased contribution of forestry to economic and social development providing for better living standards and more employment. Further, a *Strategy was developed on the Development of SMEs in forestry and forest based industries and entrepreneurship* for the period of 2003-2008. It addresses support options in general, legislation impediments, financial elements, education and training, export promotion and technical issues.

Nonic and Milijic (2008) conclude that these strategy documents and their implementation efforts should lead to significant development of private forestry in Serbia.

3.3: DEVELOPMENT OF THE NON-STATE FORESTRY SECTOR IN ALBANIA (BASED ON LAKO, 2008)

Forests cover more than 50% of the country's area.

Agriculture and forestry are two important components in rural life and the national economy. The villagers manage both agriculture and forestry; typically in diverse agro-forestry systems. In 1992 these sectors contributed with 42.5% to the value of the Gross Domestic Product (GDP). In 2005 however their share was only 20.7% of the GDP, substantially decreased but yet very important. Statistics show that the annual income of the forestry sector accounts for €0.83–€1.5 million per year, the income from wood material is 50-75% of that, and medicinal plants and other non-timber forest products are 12-30% [ANFI Project—*Special Study on Forest and Pasture General Plan*, 2004]. The income for 2002 amounted to roughly €1.44 million.

Along with fuel wood and timber, forest areas are used for livestock grazing and providing fodder. This contributes significantly to the rural families' income. There are indications that income from forestry (fuel wood, timber, grazing and fodder) accounts for about 20% on the total annual incomes of rural families.

It is remarkable that more than 62% of the forest sample plots were in a terrain with a slope larger than 40%, illustrating how many difficulties the forest management is facing within Albania, especially in terms of forest harvesting. In spite of these limiting factors, the conditions are favourable for growing forests, but the forest productivity (of 1.4 m³ wood per hectare per year on average) is much lower than in other European countries. Changes in the landscape through opening land for agriculture, heavy grazing, fires, grazing and cutting, as well as fuel wood and timber pressure for the increasing population, are important degradation factors in Albania.

Albania is home to approximately 415 wood processing factories, which process yearly a volume of 360,000 m³ of wood.

Albania is also well known for the quality of non-wood forest products, such as medicinal plants, ether oil plants, tannin plants, etc. More than 7,400 tons valued at US\$ 10 million are exported on average each year (2004).

Over the last 60 years of communism and transition period Albanian forestry has suffered significant changes. The forest area got reduced by more than 300,000 ha and most forests have been degraded through overharvesting and overgrazing (MOAF, 1998). It is stated further that, forests degradation and erosion are the main problems in natural resource management in Albania.

Historical development of forest property

Before 1945, due to the Sherihat Law of the Osman empire, the private forest area in Albania had been rather small and it did not exceed 5% of the total forest area (ca 63,000 ha). The Albanian Parliament approved the first law on forests 1923. It recognized the private forests and pastures and acknowledged the owners' right to possess and gain profit. It was forbidden to convert forests to arable land when no valuable agricultural profit could be expected. If someone cut trees without permission in private forests, he was obliged to replant the land, and was also fined. Three categories of ownership were recognized: (i) private; (ii) communal (an administrative unit composed of some villages); and (iii) state.

The nationalization of forests was carried out after WWII, in 1945. Private ownership on forests however disappeared when the agricultural cooperatives were created in 1966. All lands, including forests, were declared under state ownership by the Constitution of 1976. During the communist regime the trend prevailed that "*state property is the property of nobody*," and it has led to severe degradation of many forests, mainly of those close to villages.¹⁰ There was great human pressure on forest resources (fire wood and grazing) that caused forest degradation especially in high forests or forests close to settlements. Investment in forest management dropped considerably after the mid-1980s.

Private property, including forests, was again legally recognized after the economic and social changes of the 1990's.

Restitution in the 1990s aimed at restoring private forests on the basis of ownership in 1945. By 2007, 19,000 ha or less than

30% of the private forest area was restituted to the former owners. However the restitution process has been extremely slow, because of procedural problems and a general lack of knowledge about the law.

While all pastures and meadows claimed by former owners will be restituted, the forest area has been limited. The forest area for restitution could not exceed 100 ha.

The use of state forests was transferred to the Local Government units—(LGU) (communal/villages), which was one of the most important reforms carried out in Albania. The transfer is made to the communes, which then conclude agreements with the village or individuals - (family) users.

The transfer process started in 1996 in cooperation with the World Bank.

The implementation of Communal Forest Management (CFM) was based on the participatory management of communal forests by rural communities. They are organized in the Forest Users Association (FUA) and Village & Commune Forest Commissions.

The main achievements of the transfer during 1996-2003 are as follows:

- 138 communes with 1,290 villages with completed transfer;
- 724 thousand inhabitants of the villages involved in the CFM;
- 356,000 ha of state forest transferred in use to LGUs.

The philosophy of the CFM in terms of transfer of forests is not just to return forests, but to give back the forest management responsibility to the people. CFM is therefore also part of the local empowerment and capacity-building processes.

The new phase of the transfer process started in 2007. The state forests could be transferred into ownership or into the use of LGUs upon their request. This process has been completed in all communes of Albania and about 530,000 ha forests are now property of the communes (2009). In the next steps of the process the property/user rights for villages, families and individuals must be defined in areas where such need will arise.

To be able to carry out the management of communal forests, all users of the communal forests are organized as members of the Forest and Pastures User Associations. The organization and functioning of FUAs are still problematic, in many cases, due to the following (Lako 2008):

- Local people do not have enough knowledge of the law of FUAs.
- Local communities think that FPUA are appointed either by the LGU authority or by DFS.
- FUAs are not able to generate income.

Communes and FUAs are organized at the regional level into Regional Communal Forests Federations aiming at interest representation mainly. In 2005 the National Association of Communal Forest and Pastures of Albania (NACFPA) was established.

Concerning private forestry, Lako states (2008) that, "...In Albania the policy on the private forests management is not complete and the procedures to implement them are not in place. The legal provisions do not reflect the actual changes in the private forest management. The Forest Act and the "Strategy for the Development of Forest and Pasture Sector" mention the private forests marginally only, and they do not define goals and methods for their sustainable management."

The lack of a private forest owners' organization is one of the main issues for the private forest management. At present there is a Regional Private Forest Association, with 1000 members covering 10.500 ha. According to Lako (2008) the private owners are facing a lot of difficulties in managing their forests.¹¹ The following problems were encountered during the restitution process:

- No provisions exist on relations among private owners, the forest service and local government, among the owners themselves, explaining rights and obligations.
- The restitution of forests situated protected areas and on tourist zones is not allowed (while the restitution of agricultural land is allowed); in these cases the forest owners could be compensated.
- Ownership documents are missing.
- Legal provisions related to forest restitution are not well known.

The “Strategy for the forest and pasture sector development” (SFPSD) has been formulated in 1998 as part of the USAID funded Albanian Private Forestry Development Project (APFDP). Just one year later, in 1999, the first Forest Strategy for the Development of the Forestry in Albania was formulated. This Forestry Strategy aimed at providing an optimal contribution to economic growth and sustainable management of forestry and in 2004 it was revised. Its main goals now are (Lako 2008):

- Underscoring the linkages and fundamental importance of forestry for meeting the development objectives of other sectors-- agriculture, energy, water, rural development and tourism-- thereby facilitating the improvement of planning and program coordination;
- Ensuring that higher level governmental authorities clearly understand the potential contribution of forestry to national development and thereby support it with the necessary policy, authority and resources;
- Facilitating international support for forestry by allowing interested development partners to see how their resources can and will be used to best advantage;
- Overcoming uncertainty, among the private sector that might otherwise stifle positive investments (e.g., for wood industry or tourism development) and at the local level, among the many farmers, herdsmen and rural people who will thus feel more secure in practicing the conservation and wise management of their forest resources.

4: CHALLENGES TO PRIVATE AND COMMUNAL FOREST MANAGEMENT IN SEE

Here some issues will be highlighted regarding the problems that the forest owners are facing in SEE, whether as individuals or as communities. These challenges in the context of this paper are obvious signs for investment needs and continued reforms on forest management.

The summary figures in Table 1 show that fragmentation must be considered as one determining factor of private forestry in the sub-region. However, there are significant differences regarding the share of fragmented forests too. Forest fragmentation dominates in Serbia concerning 86% of the estates and is the lowest in Macedonia concerning 57% of the estates (PRIFORT 2009).

The fragmentation issue is then highly linked to the unsatisfactory state of the Cadastre on forests in almost all countries. Fragmentation of the parcels makes border marking in the field very difficult. That also makes trade and inheritance of the forests almost impossible. However, these problems relate to other land use forms as well and the whole agricultural sector or to urban areas. Cadastre is a general problem in Macedonia, Serbia and Albania.

In Albania the legal framework on communal forest is not yet cleared from contradictions and at the same time old regulations are still in force.

Communal forests have made great progress during the last years. Good examples can be found everywhere as the transfer has led to improved management of degraded forests (Lako 2008). This came along with the increased interest of communities and the participation of the villagers in the process. However, this positive development is hindered at large by the contradictory role of District Forest Services (DFS), as they are still the official governmental organization responsible for inspection and management of those forests to the same time. This contradicts the role of the communes and causes conflicts in practice as ideally DFS should only have advisory and/or monitoring roles.

However, viewing forest policies' development for the support of the decentralization of state forest management including legal actions concerning communal forests in Albania, one can say that surely there is a progress. The Forest User Associations were established in most communes involved in the transfer process, which later created the regional federations and the National Association. By the end of 2006, the transfer process was realized in 138 communes, involving 1,290 villages with 160,118 families. Today this process is nearly completed in all communes of Albania. The process had mostly external support (USAID, NRDP, SNV...etc). The experience shows that the management of forests by the local people is successful, mainly of the positive economic, social and environmental consequences, what the local ownership has. Despite the achievements, many actors have the impression that the transfer process has gone slowly and, furthermore, is not fully completed, because the families have not received documentation which proves their property right. Uncertainties are there for various reasons (Lako 2008):

- Unclear policies related to the income generation and sustainable management of communal forests by the local communities;
- Gaps of legal regulations and their enforcement on communal forests and that they are not implemented as needed;
- Insufficient capacities of LGUs to facilitate the process;
- Insufficient knowledge by the users on the process itself and the mistrust about government actions, etc.

Concerning the property transfer from the state to the communes it was therefore an imperative for the process to continue even after the completion of the legal action. This is due to the fact that regarding the actual forest management only little progress has been made. Local Government Units (LGU) and Forest User Associations (FUA) do not have the organizational and technical capacity for the management of communal forests. Lack of competences and of financial means signalize that sustainable management of the forests is not yet possible in most cases.

Another problem is the land degradation e.g. by erosion. It relates not only to forestry, but to the agricultural land as well. Approximately 123,000 ha are abandoned (1997). This land is subject to further degradation. Another aspect of degradation is the uncontrolled or illegal harvesting of firewood. More than 400,000 families live in the concerned areas and they consume around 1.2 million m³ firewood per year, most of which is obtained through illegal cuttings of state forests.

Here are the main challenges of the Communal Forest Management process (Lako 2008):

- Improvement of forest policies related to communal and private forestry, e.g., on property issues, incentives and income generation;
- Lack of political will of decision-makers to clear up competence and responsibility overlapping of the District Forest Services;
- There is not proper methodology developed for the delineation of the natural boundaries for villages/communes;

- ➔ Forest Service decides in the arbitrary way about the forest area that will be transferred to village/communes, not taking into account the customary boundaries as well as the community's requests, etc.

In Serbia and Macedonia the public forestry enterprises are entrusted with several technical management tasks in private forests. However, the current organization of extension and technical services for private forests and the lack of a separated advisory service do not satisfy the owner's needs according to the national private forest associations there. The biggest lack of the current system of organizing professional and technical tasks in private forests is the clear conflict of interest of the Public Enterprises performing those tasks. Since the major task of the PEs is state forest management, private forest management represents a source of competition for them. Performing services for private forest owners can cause conflicts of interest, as state foresters cannot be independent in technical management activities and advising a potential competitor (Begus, 2006).

As forest management plans for private forests are lacking in Serbia, foresters do not have enough information about private forest property / forests, and consequently do not have a clear picture of the situation, which leads to an inadequate approach to management of private forests. In Macedonia forest owners claim that the planning and management practice of the private forests has been the most significant problem in private forestry over the last 10 years.

Communication between forest owners and foresters runs mainly from foresters to owners and is mainly about legal procedures. Extension service is limited because procedures are too complicated. Some extension work is done, mainly by tree marking, but it is not coordinated and organized. Therefore according to Nonic et al. (2007), reorganization of professional and technical services and the establishment of an advisory service for private forestry are seen as priority for the further improvement of that sector in Serbia. The same relates to Macedonia as well.

In Serbia also the **constitutional status** of private forests is controversial, since private and state ownership rights are equal and have equal legislative protection but all natural resources are declared as "goods of public interest" and are therefore owned by the state. This formulation is not in line with the modern understanding of private property but rather reminds of the socialist vague legal formulations of unclear content. Private property should be first of all goods of a defined person or organisation, which does not mean that public interest is automatically neglected. Moreover, financial, organisational or human capacity support for private forest owners, in both countries, has just started recently. As part of the NFP and NFS activities much has been done on capacity building of public forest administration and support for forest owners' associations. Activities are performed through workshops and education of forest owners.

These issues of contradictory regulations, overlapping rights and responsibilities of organizations and conflicts of interests resulting from monopoly-like acting towards private forests causes at the end inefficiency in implementing sustainable forest management of private or community forests in the Western Balkans. These issues are particularly striking, knowing that after almost twenty years of the transition from socialism to democratic systems in the West Balkans, power relations between traditional forestry actors are almost unchanged. Most empowered are the public forest administrations and state forest enterprises. Forest owners' action is still predetermined by public organisations which leaves not enough space and financial means for development options. Thus, little has been done on behalf of the governments to assist private forest owners and allow them a serious and adequate role in forest policy (PRIFORT 2009).

Regarding these problems, different authors and organisations or project outcomes have come up with different proposals of solutions. In Serbia the FAO TCP project outcomes include the following measures (2007):

- ➔ Redefinition of roles and responsibilities and internal relations of sector organizations with clear functional separation (executive, control, supportive and function of ownership);
- ➔ Establishment of new institutions—e.g., the Agency for Forests;¹²

- Definition of rights and responsibilities of state forest management organizations;
- Incentives for organizing private forest owners and joint forest management, etc.

Further organizational reforms, such as the establishment of the Agency for Forests and empowerment of additional private forestry organizations depend on the adoption of the Draft Forest Law (Nonic 2007). Other reforms such as the service for Private Forests within the PEs, depends on the PEs' internal restructuring which has not yet started.

This table below summarizes the critical issues and recommendations identified in Albania by the National Association of Communal Forests and Pastures in 2006 (Lako 2008).

TABLE 2: THE CRITICAL ISSUES AND RECOMMENDATIONS FOR THE IMPROVEMENT OF FOREST POLICIES AND LEGISLATION IN ALBANIA (2006)

Critical Issues	Recommendations / Proposals / Suggestions
Lack of clear and proper policies for land tenure and communal forest management.	Prepare the package of property rights arrangements on communal forest; and improvement of bylaws for the transfer and management of communal forests.
A law not well defined on communal forest (the current law is not focused on the main forestry issues such as ownership and use rights, decentralization and delegation of competencies)	Complete the legal framework for the transfer of communal forests in the ownership of villages and local government; and their sustainable management by local communities.
A law not well defined on communal forest (the current law is not focused on the main forestry issues such as ownership and use rights, decentralization and delegation of competencies).	Improve forest policies to stimulate the income generation from communal forest including non timber forest products, wildlife, hunting, etc., and provide legal and institutional instruments on how to use these incomes for the improvement of the local community livelihood.
Lack of users' rights to generate income based on communal forest activities.	Decentralization of the decision-making for forestry tariffs at the local government level.
Lack of know-how and technology transfer.	Establish an effective extension service for communal forests.

Source: Lako 2008

Capacity building issues mitigate some of the technical and institutional or administration system related problems listed above.

As most of the countries have done much about reforming their forestry sector and economics in general, but at the same are facing conflicts of interests in these reforms, capacity building is of mid or long term impact. In most SEE countries, actor capacity building was part of the general forest policy processes of national forest programmes or national forest strategy or emerged from a new actor perspective. In some cases, internationally funded projects had effects on it too.

In the National Forest Action Plan process of Serbia, the proposals related to forestry administration and forestry extension addressed the capacity building of both institutions. Trainings and study tours were organized for core groups of inspectors and forestry extension specialists. Also training needs for private forest owners were identified by means of interviews.

Extension plans for the Inspection Service and for the Service for Private Forests within PE "Srbijašume" and National Park Tara were also developed (Nonic, Milijic 2008). This was developed using "training of trainers" methodology. It covered forestry participation issues, extension and group promotion methods, as well as some concrete forestry operation examples combined with law application providing for a more open way to handle the clients of administration. Further, communication with private forest owners; forest owners' rights and obligations including church forests and implementation of forest management plans for private forests were also addressed. As a result of the capacity building process, 13 candidates were qualified as trainers and 51 inspectors and forestry engineers participated in further trainings. It is planned that further capacity building will be

taken over by the national core group and the qualified trainers. Some targeted capacity building activities regarding forestry based SMEs took place with pilot character scale. The first two SMEs have also registered their activities and received funds from the state budget. Their development plans are used as teaching material for extension officers or as a guide to develop businesses.

In Macedonia formal education in secondary and higher education programmes have started introducing “entrepreneurship” subjects as well. In terms of forestry, this will be done by the forestry secondary school in Kavadarci and by the Faculty of Forestry in Skopje. The Faculty of Economics and the Faculty of Mechanical Engineering have also introduced this subject.

5: SMALL ENTERPRISES IN THE FORESTRY SECTOR OF SELECTED COUNTRIES IN SEE

The SME sector is the “backbone” of the economic development in many national market economies in Europe. Experiences show that SMEs have a significant impact on national production and income and a relatively high effect on employment indicating that the strategic goals at the national, regional and local levels should provide enhanced framework conditions for them.

In Serbia the potentials and importance of the SME sector are recognized in the strategic planning documents of forestry. *The Forest Development Strategy of the Republic of Serbia* (2006) points out the necessity of development of small and medium forest enterprises.

The main objectives for the development of SMEs are reasoned by an increased contribution of the forestry sector to the economic and social development at the national level, of course. Related to the direct measures for the promotion of SME activities in the forestry and forest industry, a *Strategy of small and medium-sized enterprises and entrepreneurship* was adopted for the period 2003-2008. The main strategic guidelines of this strategy are:

- Support of small- and medium-sized enterprises in the primary sector,
- Support of institutions with regard to the interests of companies in resolving legal restrictions,
- Financial, education and training measures, like export promotion, sector analysis and technical supporting measures

Forestry and forest based SMEs are viewed here with large potential assisting the recovery of the national economy.

In Serbia today there are about 3000 small and medium-sized companies that are forestry based. 98% of those are small/micro enterprises. They emerged mainly due to the privatization process in the Public Forest Management Enterprise “Srbijašume” (PFME) since 2001. In the meantime about 400 SMEs sign annual contracts with PFME Srbijašume and provide services related to cutting, dragging, transport of wood assortments, as well as transport and silvicultural works. In providing services for state owned forests SMEs participate with 88% in felling, 77% in skidding and 70% in extraction. In the last three years 70 different SMEs were engaged in silvicultural works, 227 for harvesting and skidding and 193 for transportation, road/skid trail constructing.¹³ Only 16 SMEs dealt with tree nursery and seedling production. This business is rather underdeveloped among private enterprises, making up only 2% of the total production.

The majority of SMEs in the forestry sector are family based or micro-enterprises with assets consisting perhaps of a truck and harvesting equipment. For instance a charcoal producer may operate typically 2–7 kilns. He may own a truck and may be purchasing wood and charcoal from other producers in order to supply larger markets. There are many private forest owners who live only from the income generated from their forests. Nonic and Milijic (2008) refer also to the challenge of the large number of competing enterprises performing often not registered activities, like e.g. unregistered sawmills or charcoal facilities. A further important aspect is that they usually employ unqualified workers without specific forest management or machinery related training, licences or formal education.

Regarding other activities in forestry, in Serbia there are SMEs registered for:

- Gathering and processing of non-wood forest products (charcoal, medicinal herbs, turpentine oil, mushrooms, wild berries, fruits, honey, etc..);
- Services in tourism and recreation;
- Hunting and fishing.

SMEs in Serbia reported difficult access to financial capital to invest into upgraded technologies and information technology or lack of operational capital. More capital, technology and information would allow for harvesting or purchasing by “selling on the stump” contracting, and for raw material sourcing from both private and state forests, which is not the case now.

Furthermore, the approach of PE “Srbijašume” to pay for services with wood products of low quality, like fuel wood and residues creates long-term problems for SMEs. This practice undermines the implementation of the service, as well as the payment of claims of third parties on contractors. It reduces liquidity, persuade some of the enterprises to base their business on the production of charcoal, for which the raw material comes from compensation wood for performed services.

One of the major disadvantages towards SMEs is the high fragmentation grade in Serbian forests. Although private forest owners possess almost half of the forest resources, only about 20–30 percent of their production consists of industrial round wood and the remaining being mostly fuel wood (Salmi 2006). In most cases the private forests are irregular in shape, long and narrow strips, as a result of continuous split by inheriting practices. At present, more than 90 percent of the private forests are in need of proper management plans. Accumulated effects of the lack of management plans and implementation for the private forests are evidenced by ongoing degradation of the quality and production capability in most of these forests. In addition, although forest cadastre dates back to the 1930s, forest demarcation is incomplete and out of 50,000 km of forest boundary, some 15,000 have so far been demarcated. It is a costly investment to complete the remaining demarcation yet while this is lacking, it can result in common disputes between forest administration, PFOs and local communities (Kir 2003).

Due to economical circumstances in Serbia, low entrepreneurship capacity and low education in market and management sense, SMEs in forestry do not normally make use or cannot access bank credits or loans. Most of SMEs mention that interest rates are still very high. On the other hand, banks are usually reluctant to lend to very small forest producers since the product is not visible for them and linked with many variables for success in trading and profitable operations. In addition, forest producers are not organized and have low entrepreneurship capacity. All 9 interviewed SME owners or managers within the “Majdanpek key study” (FORNET 2009) confirmed that investment difficulties and lack of capital flow are key constraints relating highly to their business. There are, however, several credit and grant programs with the Rural Development Department of the Agriculture Department of MFAWM funded by the EU. The grant programs are for registered rural organizations or companies and it is stipulated that the recipient has to make a matching grant of 40%. When it comes to loan programs, there are several cooperating banks specifying low interest loans (4%) to clients in exchange for a guarantee provided by a trust fund of the Department. SMEs mentioned that they know very little about these opportunities and the Rural Development Department needs obviously more transparent information and better dissemination. Milijic stresses (2008) that one structural problem is in this respect that there are no established roles and models of public and private sector partnerships in financing SMEs and the lack of adequate communication and information exchange between the Government and private sector. This is partly due to the phenomenon of **institutions** being entrusted with this task, which were established in a model derived from the socialist period. These institutions were originally directed to perform services for large state enterprises and thus fight now with adjusting themselves to changed market economy conditions and new clients, in this case the SMEs.¹⁴

The figures on forestry-related SMEs in Macedonia (2004) are presented in Table 3.

TABLE 3: NUMBER OF REGISTERED SMES IN THE FORESTRY SECTOR

Sector	Small	Medium	Large	TOTAL
Agriculture, forestry and hunting	912	31	3	946
Fisheries	28	0	0	28

Source: Central Register Office of Macedonia, 2004

Most of the agriculture and forestry based SMEs are micro or small-sized enterprises (family business). Unfortunately, forestry, hunting and agricultural data are not disaggregated. Their business areas cover sawmilling, briquetting, NWFP processing and eco-tourism.

According the Economic Chamber of Macedonia, there are around 590 companies from the primary processing (sawmills) and 566 companies for final wood processing (Economic Chamber of Macedonia 2006). At the same time there are existing data about sawmills, wood based panel, paper and paperboard producer enterprises (Table 4).

TABLE 4: STRUCTURE OF ENTERPRISES IN THE REPUBLIC OF MACEDONIA IN 2003

	Size of enterprise	Gross output in euros	Number of enterprises
Sawmills	small	13,556	549
	medium	969	3
Wood-based panels	small	477	10
	medium	0	0
Paper and paperboard	small	15,298	189
	medium	3,303	2
	large	10,171	1

Source: Economic Chamber of Macedonia, 2003

These enterprises are normally in private ownership and function as a joint stock companies or LTDs. Many of them make some profit, but most of them are equipped with old technology, marketing, modern design is often lacking and therefore cannot claim strong competitiveness on international markets.

In forestry, small private enterprises came out as a result of the policy change and also of the reforms of the state forest management organization (Makedonski Sumi). In 1999/2000 the public forest enterprise privatized some of its main management activities such as logging, transport, hauling. This measure significantly enlarged the number of the small- and medium enterprises related to forestry. At the moment, there are about 480 SMEs linked to the PE "Macedonian Forests" management activities by open tenders. They provide services reaching the followings quantities at an annual level: firewood—450,551 m³, technical wood—144,600 m³ (75% deciduous, 25% coniferous). For the above-mentioned operations, there are about 1,000 people employed in these SMEs (Stojanovska 2009).

Further, in 2005 other company units were turned into private companies to reduce the number of employees. 7 sawmills, 1 fishery and 1 part for mushroom production were extracted from the PE "Macedonian Forests" and transformed to private small and medium enterprises.

Also, following the bio-energy trends, many wood processing factories, e.g., sawmills have introduced wood-briquetting machines in their production chains. However, only six to seven companies in the country have a clear briquetting production profile, providing for both domestic and European markets.

Macedonia also has significant non-timber forest resources, e.g., medicinal plants, mushrooms, forest fruits, pastures and diverse game species, which can be used by specialized collecting and processing SMEs.

There are about 2,800 species of **mushrooms**, 50 of which are commonly collected for further processing or direct sale. They appear to have an enormous economic value for the local population in the rural areas. Data on export values account for a volume of 328,693 kg at an estimated value of about US\$ 2 million (State Statistics, 2001). Purchasing enterprises have an annual contract of a specified quantity with either the public enterprise “Makedonski Sumi” or the National Parks. However, individual collection is not regulated in any way and there are no recorded data of the total quantity of collected mushrooms. Also export permit licenses for commercial species can be obtained from the Ministry of Environment and Physical Planning (MOEPP) but there is no regional or local data further available. Therefore, neither any sustainability aspects can be assessed at the moment nor any collecting restrictions have foreseen, with the exception of protected species lists.

There is large spectrum of freely gathered plants, used for the preparation of tea or as spices. There are some specialized companies active in this field like Alkaloid-Skopje, Jaka-Radovis and also the individual collection is estimated as important. The amount of exported tea plants was 1,127,825 kg in 2001 with a value of US\$ 1,453,052. However, some other yearly data also mention the value of US\$ 4.5 to 5 million (State Statistics 2008).

Wild fruit and nuts are mainly high mountain fruits, the most important one being the blueberry (*Vaccinium myrtillus*), a product used chiefly for export. 2001 data specify export values of 83,284 kg volume at US\$ 86,196. Estimates also specify approximately 250,000 kg collected chestnuts yearly and traded or used mainly domestically.

The number of collectors is estimated at ca. 12,000 people (USAID, 2008). This data arises from the quantities bought by the companies, and quantities exported, with some averages for collection quantities of mushrooms, lichens, berries and other products. The number of collectors is increasing. Even the collection is traditional activity of the population living near the forests; it was diminished during the phases of industrialization of Macedonia. The collection was again re-introduced as the market required high quantities with good buy-out of the products from the early 1990s. Many middle aged or aged people, unemployed, coming out from the large bankrupted companies involve themselves as collectors. Pressured by great poverty and limited job opportunities, the high altitude areas in Macedonia continue their tradition for collection. There are approximately 80 buy-out companies and around other 100 independent, not registered traders.

The processing is organized by around 20–30 companies in Macedonia, where the estimations are that around 600 persons are permanently employed. The companies engage around 3000 persons more in the processing during the season. The processing companies organize the export of the products. As a general overview, around 20,000 families in Macedonia have regular links in the sector, at least seasonally.

A clear attachment of these micro enterprises or of the unregistered activities to private forests cannot be seen. As private forests are small, on average fragmented into a number of dislocated cadastral plots, linked with some administrative difficulties in management, the majority of the private forest owners use the forests for fuel wood production or other own consumption quantities that are mainly not registered. It means that the forest owners have almost no marketable product worth for business to be based on or to invest into. However,, property rights play a central role, as neither NWFP collection nor hunting for example is regulated in a way that the forest owner could have any chance to develop businesses out of products he owns.

6: SUMMARY OF THE SME AND INVESTMENT SITUATION BASED ON SELECTED COUNTRY EXPERIENCES

In conclusion, it is clear that in South East Europe and the Western Balkans, non-state forestry is in general still less developed and it is in need of policy enhancement or reform, investments and capacity building. Private and community forest owners have difficulties to adequately participate in the policy setting of national and cross-sectoral dimensions such as, e.g., national forest programme implementation. This is also the case in Albania and in Macedonia, even though there are national level organisations of forest owners for interest representation already exist (2008). However, progress has been made in recent years on this issue in most countries of the Western Balkans.

In general, it can be stated that non-state forest property in the SEE countries faces the common problem of not-enabling policy and financial framework for its proper functioning. This is partly heritage from the socialist times' legal practices of, e.g., ex-Yugoslavia, where private property on forests was legally possible but practically and management-wise strongly restricted. There was no organisation of forest owners either. In Albania even no private property was allowed during the socialist regime. After the political changes of the last 15 years, restitution progressed but most of the SEE countries have not or have scarcely overcome the unfavourable framework conditions on organisational reforms, responsibility conflicts or financial support issues. Therefore little development of the non-state forestry took place. Consequently, forest owners are still hardly organised or their representation is comparatively low in those few existing organisations and their economic and social potential is not yet explored.

The most serious problems of enterprises and entrepreneurs are partly of technical nature, relating to obsolete equipment and machinery, but what is more striking is the unfavorable financial situation with expensive commercial loans, the lack of incentives for modernization and SME development funds and also poor infrastructure. Unqualified labor force seriously hinders entrepreneurial development, as it lacks not only initiative, but diverse skills too. General weaknesses and problem of SMEs include: a) lack of opportunity for business self-financing due to low-level operational capital available, b) limited investment activities of the financial sector into forestry businesses, c) lack of information on those existing financial opportunities.

On the other hand, considerable strengths of SMEs in the forestry and wood-based industry sectors are e.g. the established cooperation with state forest management companies creating a stable demand and market on the local level. This link also leads to significant participation in the creation of the value chains of wood or non-wood forest products. Market changes can also be followed rapidly and the contribution to rural development with real financial and policy background is high in the agenda in Europe for the countries with EU membership aspirations. However, the resource availability of the private/community forests varies greatly among the countries, as e.g. in Serbia, Croatia and Albania it is significant, whereas in other ones, like Macedonia or Montenegro this is more limited.

However, the realization of this potential is conditioned by the existence of an enabling framework on the one hand, and their cooperation on the other. In order to mobilize private forest owners it is necessary to intensify the activities of their organizations and make links to the local governments, cluster organizations and associations of entrepreneurs or trade.

The biggest threats to the development of forest based SMEs in SEE are frequent changes in business conditions like financial regulations, taxes and fees, as well as the changes in export trade conditions. Also great threats to exporters are the unstable exchange rates and the lack of a compelling development policy, unfair competition by the "gray"/illegal economy, and expensive and inaccessible investment capital.

In the wood processing industry there are opportunities for product diversification, given the expansion of e.g. the Montenegrin construction sector and the high level of imported final wood products. Product and market orientation are of key importance. Business planning abilities are crucial when it comes to investment projects and assessments.

In developed economies, credit financing is primarily performed on commercial basis, however, via commercial banks. In Macedonia financing of SMEs is becoming more transparent recently, making credit terms more accessible to entrepreneurs in

general. However, in most cases, banks have not taken a risk when it comes to financing SMEs (Stojanovska 2009). Banks have reported the following as the most important problems related to lending to SMEs:

- Risk analysis estimate too high risk probabilities and values;
- Lack of sufficient security (collateral) provided by SMEs;
- A small percentage of returned credits by SMEs due to high operating expenses;
- Lack of trained management and entrepreneurial skills;
- Poor and additional financial reports that make financial assessment of enterprises hardly appropriate;
- Adverse bank credit strategies that are not in accordance with the needs of SMEs.

The available opportunities for SMEs therefore largely depend on government loans or international financial programmes provided by e.g. PHARE (EU), IFAD (UN), SME Fund (USAID), Economic SOROS Development Fund, European Investment Bank (EIB), Governments of Italy, Germany and Netherlands SME Founds, SME export credits. The total value of these programmes reached €96 million differently scoped and scheduled, but it gives the magnitude available for general SME development in Macedonia.¹⁵ However, forestry related SMEs are often either not eligible or yet not successful lobbying those general SME financial government or internationally based programmes for funding. This unfortunate situation relates in general to CEEC and not only to SEE's private forestry sector.

In Macedonia the Agency for Entrepreneurship was established in 2005 (APERM), with responsibility to realize the Government Programs and Projects as well as other projects supported by external donors. The Agency applies for projects throughout its regional centres. In addition, there are also 7 so-called business incubators in Ohrid, Delcevo, Makedonska Kamenica, Stip, Prilep, Strumica, and Veles. Three agencies for technological development were established at the Faculties of Mechanical Engineering and Agriculture in Skopje, as well at the Faculty of Technology in Bitola. Private sector companies established new chambers and sectoral organizations, which have expanded the services offered to SMEs. Further support is provided in form of trainings and seminars organized by APERM and realized by the regional centers. They cover majority of the services in the area of basic management, marketing and accounting. Voucher programme for consulting services is implemented with the aim to help potential entrepreneurs who need consulting help and support in managing their enterprises.

In general, the undertaken measures for nonfinancial support offer help to entrepreneurs to improve and strengthen their business management skills to increase their competitiveness. In these activities forestry-based enterprises are eligible to participate but no specific records exist on their participation.

Specific input is also provided by internationally funded activities. For example, in the years 2000 and 2001 there were 30 projects running only in Macedonia concerning SME development and management. These projects partly addressed the financial services, such as credits, investment and grants, and partly provided for training, technical assistance, campaigns or consulting services (Stojanovska et al. 2009). The Entrepreneurship Stimulation Programme in Macedonia (ESP), sponsored by the Swiss Development Agency with a total budget of 3 million CHF for 3 years, and the Programme for the Development of Entrepreneurship, Competitiveness and Innovation of the Small and Medium Enterprises for 2007–2010 are the two programmes that seem to be of most relevance to this paper. The program will be implemented through the Department for Entrepreneurship and Competitiveness of the Ministry of Economy and the National Entrepreneurship and Competitiveness Council, as well as through other ministries.

Designing interventions to develop Business Development Services for forest based SMEs request understanding of the existing situation and markets. It also means to identify weaknesses and opportunities in the demand for supply of such services.

This understanding can help to: a) identify local mechanisms of service delivery and payment; b) choose the intervention strategy and instruments; c) identify local institutions and networks. As a result of these activities the demand of general and forest-specific BDS will increase.

Taking this into account, the needs of the forest based SMEs are:

- Improved access to financing;
- Capacity building for business development and market analysis;
- Support to service providers to improve their equipment through financing options and information, training support, etc.;
- Establishment of advisory services to ensure sustainable supplies of raw material;
- Providing information on existing and potential new markets, improving equipment and understanding how to register their businesses.

Forestry-based or linked SMEs exist mainly in sawmilling, briquetting and NWFP processing and logging/transport operations. The business link to those SMEs in SEE private and communal forestry is however largely missing.

7: CONCLUDING REMARKS

It is apparent that in SEE there is a need for a coordinated approach on the enhancement of the small-scale forestry.

Herein investment should cover not only concerning financial difficulties or issues but address also, a) basic capacity building support and b) policy framework conditions, like legislation and institutional set-up related to small-scale forestry.

On the other hand, basic institutional changes require a strong policy incentive everywhere. Small scale forestry has been of no priority in most of the SEE countries in forest or economical /SME policies so far. Policy development in SEE lately applied modern policy tools, such as national forest programmes or business development programmes addressing the forestry sector or the SME sector in general. Due to modern elements of policy therein, like participation of stakeholders or inter-sectoral coordination, private forestry was addressed in these documents and processes. It can be stated that this issue got more focus as it was the case in most SEE countries before. This development has been largely strengthened by the new property and democratic policy conditions of course, resulting in private forestry having a voice at the national level already.

However, apart from Croatia, where a substantial reform of private forestry administration and financial regulations took place, little has been achieved in this respect in the rest of the countries.

A comprehensive approach to the investment issue is therefore hard to expect when it comes to implementation of the national forest policy documents on private or community forestry issues.

New legislation in Macedonia and Serbia will address the administrative reforms of private forestry. However, this is not yet visible and certainly will not clear up all contradictions in legislation on property rights implementation of private forests. Nevertheless, further development is certainly possible.

Capacity building proves to be substantial in SEE private and community forestry as business activities are in general not developed but require more skills to become successful and stable. Regarding this, several activities have been done addressing different stakeholders in forestry. For private forestry it seems to be essential that the organised forest owners become visible and get assistance. This is most effective if their organisations provide advisory services, as service companies are not

active yet. This aspect needs organisational capacity building for, e.g., private forest owner associations being agents for the forest owners in management or policy lobbying.

However, the most difficult issue proves to be the financial sector's trust building to the underdeveloped private or communal forestry sector as business area. Much is still required to enhance the business links in private forestry.

This document however cannot answer which aspect of those three is of higher priority as they are so closely interlinked and interdependent.

Perhaps the Dialogue can deliver further clarification on this dilemma and provide not only exchange but also some vision building for private and communal forestry in SEE on the investment issue.

ENDNOTES

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⁴ South East Europe is referred here in the sense of MCPFE reporting sub-regions set up by the countries in general by Albania, Bosnia and Hercegovina, Bulgaria, Croatia, Cyprus, Greece, Montenegro, Moldova, Romania, Serbia, FYR of Macedonia, Turkey (MCPFE 2007).

⁵ Figure refers to stocked forests only, without the so-called open forests, which cover some 557,000 ha (National Forest Inventory, 2004).

⁶ Official sources of information on forests give different data about forest area. It is evident that there is not enough qualified data on private forests either. The Strategy for Sustainable Development of Forestry plans to settle the issue of unreliable statistics on forests (2005) (Trendafilov et al. 2008).

⁷ "...Instead of active forest management options, forest owners have been put in the position of passive users of services provided by public services of municipalities for any other forest management measures, tree marking and timber stumping." (Damjanovic, 1986).

⁸ The Law on Forests from 1991 introduced the term "*professional and technical tasks*" in private forests. These relate to 1) issuing licenses for logging to forest owners, 2) tree marking in private forests, 3) issuing timber and fuel wood transport licenses for forest owners, 4) organizing activities on forest protection in private forests.

⁹ Every forest owner who performs logging in his forest is obligated to pay service fees of 3% of the commercial value of the traded logs. The fee is to be paid to the Public Enterprise Srbijasume and will be accounted to the State Budget. From this source silviculture and forest protection measures will be financed. However, only measures in state forests have been financed from this source so far.

¹⁰ The communist state policy for opening arable lands even in mountainous zones led to the destruction of many valuable forests. Not being suitable for crop production, most were abandoned after only one or two years. Many private forests were also destroyed under this policy, mainly in the vicinity of settlements. At present, these lands are among the most degraded ones because of the excessive cutting and grazing combined with periodic fires. (MOAF, 1998).

- ¹¹ The private forest owners are responsible for the environmental measures required on land used for wood production, live-stock grazing and costs of these measures. They must set aside from forestry some small habitats, normally less than 0.5 ha in area, with rare or endangered flora or fauna. However, if the costs are too high, the state must compensate the forest owner. (Lako 2008).
- ¹² Agency for Forests relates to all state and private forests. It should be an independent public forest institution under the authority of the related Ministry (Nonic, Milijic 2008).
- ¹³ A study on SMEs in the Majdanpek municipality in North-East Serbia, including nine SME owners/managers, stated that their basic activities are cutting, removal, dragging and transport of wood assortments, construction of forest roads and skid trails, as well as charcoal production in three and production of lumber in one case (FORNET 2009).
- ¹⁴ A typical example is the **Chamber of Commerce** and its branch associations. All state enterprises and cooperatives, for example wood processing enterprises, participated in this organization in the past. Today almost all production units are private. However, the Chamber's structure remained largely unchanged and yet it provides basically the services for a few leftover state enterprises. (Nonic, Milijic 2008).
- ¹⁵ See more detailed in *Donor credit lines in Macedonia—Ministry of Economy 2008*.

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